



July 16, 2013

City of Quincy
730 Maine Street
Quincy, Illinois 62301

Attn: Mayor Kyle Moore

Dear Mayor Moore:

RE: Step By Step Guide – Hydro Development of Lock & Dam 24 and 25, Mississippi River

Introduction

The purpose of this letter is to provide an overview for the development of hydro facilities at these locations in which the City of Quincy would retain ownership and control of the Projects in keeping with FERC municipal preference guidelines but not be required to provide direct financing. Coastal would assume all of the Project risk by providing the project development and management requirements from Project inception to long-term operation in return for a development fee and portion of future revenues.

Compensation to both parties would be paid in stages from financing sourced by Coastal once the feasibility of the Projects were shown, had been built and entered into long-term operation. There are many options regarding how this arrangement may be constructed that require detailed analysis. We will undertake formalization of that process once we have received a commitment from the City of Quincy to proceed through entering into a Letter of Intent.

Development Process

The following is a summary of the steps needed to develop the Projects:

1. Structuring Phase

- In order to overcome the prior regulatory difficulties experienced by the City with Lock & Dam 21, Coastal has enlisted a legal firm specializing in municipal arrangements to guide the FERC regulatory process. This initial process has resulted in having Preliminary Permits issued to the City for both locations issued from the FERC.
- We have also received guidelines from our legal firm into the proper format for a Development Agreement (“Agreement”).
- There are a lot of details to sort out in the structure of the Agreement and Coastal has suggested that the City arrange for a few members of City Council to work with Coastal to come up with a draft Agreement.
- Coastal has prepared a draft Letter of Intent to facilitate that process subject to approval by City Council.

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- Once a draft Agreement has been structured that format would be forwarded to our legal counsel for input, then subject to City and Coastal approval and finally forwarded to the FERC for approval through declaratory order. Coastal would be responsible for all costs of this process.
- The Agreement would be structured to provide a significant source of long-term revenue to the City. It is not possible to provide the City with an expected return at this early stage until the details of the Agreement are worked out.
- There are a number of options to consider, both on the equity and debt side, for project financing based upon project economics and regulatory approval. One of those options is a co-op structure that would ensure community ownership through an electrical board owned by the City.

2. Feasibility Phase

- Once we have received FERC approval to our Agreement, Coastal would begin the formal process of project development through our Stage Gate process according to the format previously negotiated in the Agreement.
- The City and Coastal would form a Management Committee with representation from both parties to oversee the development process and make joint decisions at the end of each stage of the Stage-Gate development cycle.
- Since work has already been conducted on the Projects by the City, that data would be analysed for incorporation into the Coastal development plans. Coastal has invested a lot of time and funding into the North American adaptation of the VLH turbine including an ongoing R&D program at the University of Calgary. These efforts will enable Coastal to provide a lower cost and more efficient deployment structure for the Projects compared to the previous work undertaken by the City.
- This phase will include a preliminary assessment of the technical, financial, regulatory, energy sales, environmental, equipment, construction and operational requirements including risk analysis for each project at Stage 3 of our Stage-Gate Process. This information will also include scheduling tasks with timelines for milestones throughout the proposed development process.
- All of this information will be presented to the Management Committee at the end of this phase to make a decision to decide whether or not to continue with development of the Projects.

3. Implementation Phase

- This is the stage where all of work conducted from the previous stage is actually executed including formal environmental assessments, regulatory approvals from municipal agencies, FERC and the Corps of Engineers, local and state permits, detailed engineering, interconnection, finalization of construction plans, financing agreements, energy sales contracts, detailed engineering, project insurance, supply contracts and other commitments.
- Both equity and non-recourse debt financing arrangements would be implemented at this phase from sources provided by Coastal.
- Equipment and civil service supply contracts would be subject to a bid tendering process and contracts awarded through approval by the Management Committee.

4. Construction Phase

- This phase would be constantly monitored on a weekly basis with scrutiny and reporting to the Management Committee for adherence to project milestones, deliverables and compliance to project budget.
- Payments to contractors would be made under a multi-stage approval process, starting with project managers for adherence to budget and finally by the Management Committee.

5. Operational Phase

- At the beginning of Stage 6 of the Stage-Gate process the construction will have been completed, equipment installed and the plant ready for start-up and commissioning. This is one of the most important phases of the project in which the development team must ensure interconnection agreements are in place, purchase agreement terms are met and that the energy generated is in keeping with performance criteria agreed with the turbine supplier.
- During this phase we will also complete training of Operators so they are very familiar with the plant. Having a smooth commissioning process is an important part in the stage-gate process because it translates to faster time to profit, but if done thoroughly a smooth commissioning process should also result in a more knowledgeable and prepared operations team.
- At the completion of the commissioning phase the trained operator group will take over from the development team to include all future monitoring, maintenance and operation of the hydro plants as laid out in the Operations Plan and reflected in the Operations Contract provided by Coastal.

Please advise if you require any further information or clarification on this process,

Sincerely,



Neil Anderson
President

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